



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

Office of the General Manager

May 4, 2011

Metropolitan Water District Board Delegation  
San Diego County Water Authority  
4677 Overland Avenue  
San Diego, CA 92123-1233

Dear Board Members:

Response to April 25, 2011, letter on Board Memorandum 5-1 – Sale of Discounted Water

Thank you for your letter and comments on Board Memorandum 5-1: *Approve calendar year 2011 approach for purchases of water for local storage* (Memo). The attachment to your letter expresses your delegation's concerns with Metropolitan staff's recommendation. As you are aware, the discussion and consideration of this item has been tabled to the May 10, 2011, Board Meetings. This letter addresses your concerns prior to the Board's action on this item.

The water supply conditions in 2011 have improved significantly in both the State Water Project (SWP) and Colorado River watersheds. Supplies available to The Metropolitan Water District of Southern California (Metropolitan) are higher than projected demands and will lead to significant increases in regional storage. Over the last 20 years Metropolitan has developed greater storage capacities by implementing groundwater storage programs and gaining surface reservoir capacity. Metropolitan would maximize the use of these storage assets in 2011 to store available supplies. There are, however, conditions that could lead to the loss of water in 2011 or early-2012 due to the capacity constraints of these storage programs and the risk of spilling water from some facilities. For this reason, staff recommends utilizing the Board –adopted 2011 Replenishment Rates as a tool to encourage storage of water in local basins. This approach will reduce the chances of losing regional supplies while helping to generate additional revenues in 2011. Even with additional deliveries to local basins, Metropolitan's regional storage reserves will continue to increase, likely ending the year at the highest levels in history.

From a policy perspective, Metropolitan supports local storage efforts and the existing Replenishment Service Program and the Replenishment Rate are the current avenues for actions of this kind.

The Memo recognizes that there are questions and concerns about the current Replenishment Service Program that is part of Metropolitan's Administrative Code. The staff recommendation tries to mitigate these concerns in two ways:

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1. It limits the amount of water that can be sold in 2011 at the Replenishment Rate to increases in supplies beyond 2.5 million acre-feet; and
2. It identifies that staff is already working with the member agencies to recommend a new replenishment approach to the Board by the end of the year.

The Memo shows that the Replenishment Rate would collect revenues in excess of the variable costs of moving additional SWP supplies into the region. The Memo includes an analysis that shows net revenues beyond SWP variable costs of \$289 per acre-foot would be generated by the untreated Replenishment Rate, which would thus cover a portion of Metropolitan's fixed costs as well. The options in the Memo are for the purpose of moving water to certified local storage and not to current year consumptive use. The current year budget issues are related to low water sales and this action could result in increased water sales for the purpose of local basin replenishment. As such, this approach should generate additional water sales and improve financial reserve balances, as opposed to exacerbating any fiscal crisis as your letter states.

Finally, there is no disconnect between any of the options in the Memo and the member agencies' willingness to pay for current and future fixed costs. Metropolitan's rates and charges are set to cover the cost of service and financial reserve policies have been established to manage through periods of lower water sales. The staff recommendation to utilize the discounted Replenishment Rate to help manage supplies in 2011 should not be interpreted as a message that member agencies cannot pay the full rate for water. The only member agency that has indicated an unwillingness to cover Metropolitan's costs through the current rate structure is the San Diego County Water Authority, which is pursuing litigation on this issue.

I hope this clarifies some of the questions and concerns you have with the Memo. If you have any questions, please contact me or my staff.

Very truly yours,

  
Jeffrey Kightlinger  
General Manager

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cc: Board of Directors  
Member Agency Manager